
Chapter 80 - Accounting Policies

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80.10

About Accounting Policies, Roles and Responsibilities

80.10.10 Purpose for the accounting policies and procedures in this manual

Chapters 80 and 85 of the State Administrative and Accounting Manual establish statewide policies, regulations and procedures for the financial accounting practices applicable to agencies of Maine.

80.10.20 Authority for these policies

Title 5, Chapter 143, Section 1541, Subsection 1, requires that the Office of the State Controller maintain the official system of accounts for State Government, unless otherwise provided by law, embracing all the financial transactions of the State Government. The purpose of this system is to provide accountability over all revenues, expenditures and expenses, receipts, disbursements, resources (assets), and obligations (liabilities) of the State.

80.10.30 Applicability

This part applies to all agencies of the State of Maine, unless otherwise exempted by statute.

Agencies may request a waiver from complying with specific requirements of this chapter. Refer to Subsection 1.10.40 for information on how to request a waiver.

80.10.40 Role of the State Controller

80.10.40.a The State Controller acts on behalf of the Governor and the Commissioner of Administrative and Financial Services in the capacity of the State's accounting agent in carrying out the provisions of Title 5. As such, all policies, procedures, and directives issued by Office of the State Controller are binding on all State agencies unless specifically exempted by statute.

80.10.40.b

The Office of the State Controller has the statutory authority to devise, supervise and maintain a modern and complete accounting system for each agency to the end that all revenues, expenditures/expenses, receipts, disbursements, resources and obligations of the State are properly and systematically accounted for. In carrying out this responsibility, OSC:

1. Maintains central financial accounting and reporting systems.
2. Engages in oversight activities on all agency accounting and reporting systems through its Internal Control Division. The Office of the State Controller requires that any changes to existing and all new agency accounting and/or reporting systems that materially impact the accounting methods or practices of the agency/State government have the approval of the Office of the State Controller prior to implementation. Refer to Subsection 80.30.88.
3. Prescribes specific accounting procedures to be followed by agencies in accounting for the State's resources.
4. Maintains the central records reflecting the financial status of the State taken as a whole at the level deemed necessary for central financial management.
5. Adopts and periodically updates the State Administrative and Accounting Manual that prescribes and requires the maintenance of uniform systems of accounting and reporting for agencies.
6. Advises and assists agency accounting and administrative personnel in specific accounting and reporting problems and recommends system revisions and improvements which make it possible to exercise effective control over assets, liabilities, revenues, and expenditures/expenses.
7. Prescribes and requires the maintenance of budgetary accounting procedures to produce current and accurate management information for effective budgetary control.

80.10.40.c

The Office of the State Controller has the statutory responsibility to publish, after the close of the fiscal year, an annual financial report that encompasses all funds and account groups of the State as required by Title 5, Section 1547.

- 80.10.40.d All State agencies have shall adhere to guidelines and procedures issued by the Office of the State Controller. State agencies have the statutory responsibility to provide the State Controller with all necessary information to compile the annual financial report by September 1 following the close of each fiscal year.
1. Component Units shall submit audited financial statements to the OSC no later than October 15 the following the close of the fiscal year.
 2. Title 5, Section 1547, Subsection 7 – A, requires all legislatively created public instrumentalities and related organizations for which the State is financially accountable or that have a significant relationship to the State as defined by GASB to submit audited financial statements to the OSC by October 15 following the close of the fiscal year.
- 80.10.40.e The Office of the State Controller has the statutory authority and responsibility to develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies for accounting and financial controls.
- 80.10.40.f The Office of the State Controller has the statutory responsibility to cause prompt corrective action(s) to be taken by agencies on specific recommendations or exceptions contained in the reports of the State Auditor regarding specific expenditures or to other practices related to an agency's financial transactions.
- The Office of the State Controller has the additional responsibility to annually report to the appropriate committees of the legislature along with the State Auditor, and Chief Information Officer the status of audit resolution.
- 80.10.40.g Perform other such duties as may be prescribed by law or other regulations.

80.20 Generally Accepted Accounting Principles (GAAP)

80.20.10 Purpose and scope

Title 5 requires the Office of the State Controller to specify and establish the financial accounting and reporting standards and principles to be used by all State government and State agencies. This chapter defines the principles of accounting which underlie developing, implementing and operating the Maine Financial and Administrative Statewide Information System (MFASIS).

80.20.20 What are accounting principles?

An accounting principle is defined by the American Institute of Certified Public Accountants (AICPA), as “a general law or rule adopted or proposed as a guide to action; a settled ground or basis of conduct or practice.”

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. GAAP establishes appropriate measurement and classification criteria for financial reporting. Adherence to GAAP provides a reasonable degree of comparability among the financial reports of State and local governmental units.

80.20.30 Applicability

This chapter defines the basis and nature of accounting principles applicable to Maine State Government.

The accounting principles are intended to facilitate developing and maintaining a reliable, central source of timely fiscal information, which describes the financial condition of the State, reports on the stewardship of public resources, and provides analytical data for legislators, agency administrators, investors and the citizens of Maine.

MFASIS does not preclude the use of internal, subsidiary accounting systems of individual State agencies. However, the principles do apply to agency internal accounting and prescribe the nature of MFASIS. Accordingly, they underlie developing formats and procedures by which all State agencies must report fiscal information to the Controller.

80.20.40**Recognition of authoritative sources**

In order to foster general acceptability of accounting principles, we researched the significant literature which is generally accepted in governmental accounting and related fields. Those sources which have contributed to defining accounting principles include:

- Government Finance Officers (GFOA), Governmental Accounting, Auditing and Financial Reporting
- Governmental Accounting Standards Board (GASB), Codification of Governmental Accounting and Financial Reporting Standards
- AICPA, Audits of State and Local Governmental Units

We consulted several other respected sources, including widely accepted accounting texts, relevant pronouncements and publications of the AICPA, GFOA, GASB, other publications, articles and accounting literature and individual governmental accounting experts.

The literature has historically addressed the general area of State and local government, rather than consider the more specific disciplines of recording, classifying and reporting State government financial information. Chapter 85 addresses the unique requirements of statewide accounting in Maine, by adapting widely accepted accounting principles to the environment in which they must operate.

80.20.50**GAAP hierarchy**

Accounting standards or principles established by the Office of the State Controller, in accordance with Title 5, take precedence in the GAAP hierarchy listed below. Unless the Controller establishes other accounting standards or principles, and incorporates them into SAAM and/or MFASIS, GAAP hierarchy will be:

1. **Governmental Accounting Standards Board (GASB) Statements and Interpretations.** As well as, American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to State and local governmental entities by GASB Statements or Interpretations. For government-wide and proprietary fund reporting, only those applicable FASB pronouncements, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements, have been specifically included.
2. **GASB Technical Bulletins.** As well as, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position, if specifically made applicable to State and local governmental entities by the AICPA and cleared by the GASB.
3. **AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins** if specifically made applicable to State and local governmental entities and cleared by the GASB. Also, consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to State and local governmental entities.
4. **Implementation Guides (Q&A's) published by the GASB staff** and practices widely recognized and prevalent in State and local government.
5. **Other accounting literature**, including GASB Concepts Statements and AICPA and FASB pronouncements when not specifically made applicable to State and local governmental entities.

80.20.60**Evolutionary nature of accounting principles**

State government operates in a dynamic environment, in which change is increasingly a factor – organizational and operational changes, procedural changes, changes in personnel, and changes in the level of financial sophistication within State agencies. Principles must underlie a system which will function effectively in a practical environment. The OSC has prescribed accounting principles at a practical level, while recognizing the dynamics of the environment and of the principles themselves.

Generally accepted accounting principles have evolved over a period of years. Their current status reflects the historical requirements of financial information users, as well as “best practices” in public sector financial management. As fiscal accountability is monitored more closely, these principles will be continually reviewed, evaluated and refined to meet the requirements for timely, complete and accurate financial information.

80.20.70 Governmental GAAP requires fund accounting

Among the basic principles of governmental GAAP is fund accounting. Because of the diverse nature of governmental operations and the numerous legal and fiscal constraints under which those operations must be conducted, it is impossible to record all governmental financial transactions and balances in a single accounting entity. Therefore, unlike a private business which is accounted for as a single entity, a governmental unit is accounted for through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts.

80.20.75 Fund categories used in governmental accounting

Funds are categorized by type to indicate both the sources of the fund's financial resources and the nature of activities financed. There are three broad categories of funds used in governmental accounting.

80.20.75.a **Governmental Funds** - are used to account for most typical governmental functions. The acquisition, use, and balances of the State's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds), are accounted for through governmental funds. There are five types of governmental funds:

- **General Fund** - is used to account for all financial resources of the State not required to be accounted for in some other fund.
- **Special Revenue Funds** - are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.
- **Debt Service Funds** - are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

- **Capital Projects Funds** - are used to account for the acquisition and construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).
- **Permanent Funds** – are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the State or its citizenry.

80.20.75.b

Proprietary Funds - are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis. There are two types of proprietary funds:

- **Enterprise Funds** - are used to account for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds, in the context of the activity's *principal revenue sources*, if any one of the following criteria is met:
 - a. The activity is financed with debt that is secured solely by pledge of the net revenues from fees and charges of the activity,
 - b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or
 - c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).
- **Internal Service Funds** - are used to account for the provision of goods or services by one department or agency to other departments or agencies of the State, or to other governmental units, on a cost-reimbursement basis. Internal service funds should only be used if the State is the predominant participant in the activity.

80.20.75.c

Fiduciary Funds - are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. There are four types of fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** - are used to report resources that are required to be held in trust by the State for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.
- **Investment Trust Funds** - are used to report the external portion of the Local Government Investment Pool, which is reported by the State as the sponsoring government.
- **Private-Purpose Trust Funds** - are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The resources held under these arrangements are not available to support the government's own programs.
- **Agency Funds** - are used to account for resources held by the State in a purely custodial capacity for other governments, private organizations or individuals.

80.20.80

Financial reporting requirements

80.20.80.a

Interim Reports – In order to facilitate management control, legislative oversight or other purposes, appropriate interim financial statements and reports of financial position, operating results and other pertinent information should be prepared.

80.20.80.b

Comprehensive Annual Financial Report – The OSC must prepare a comprehensive annual financial report (CAFR) covering all activities of the primary government and providing an overview of its discretely presented component units. The CAFR contains the following sections:

1. **Introductory Section**, which includes the table of contents and letter of transmittal.

2. **Financial Section**, which includes:

- the independent auditor's report;
- management's discussion and analysis (MD&A), (See Subsection 80.20.120);
- basic financial statements
 - government-wide financial statements, (See Subsection 80.20.130);
 - fund financial statements, (See Subsection 80.20.140); and
 - notes to the financial statements.
- required supplementary information (RSI) other than MD&A; and,
- combining and individual fund statements and schedules.

3. **Statistical Section.**

80.20.85

What is the financial reporting entity?

The financial reporting entity of the State consists of:

1. The primary government.

The primary government consists of all funds, agencies, departments, and organizations that make up the legal entity of the State.

2. Organizations for which the primary government is financially accountable.

Financial accountability is manifest when the primary government appoints a voting majority of the organization's governing body **and** (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

3. Other organizations (including component units, joint ventures, jointly governed organizations, and other stand-alone governments) for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

80.20.90**Measurement focus and basis of accounting**

80.20.90.a

Measurement focus is concerned with *what* financial transactions and events will be recognized in the accounting records and reported in the financial statements. Measurement focus is concerned with the inflow and outflow of resources - what is being measured. While there are a number of measurement focuses, the following two are fundamental to current governmental accounting principles:

1. **Flow of economic resources** focus considers all of the assets available to the governmental unit for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded within the fund and depreciation is recorded as a charge to operations.
2. **Flow of current financial resources** focus measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. The emphasis of this focus is on cash and assets that will become cash during or shortly after the current period. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

80.20.90.b

Basis of accounting refers to *when* transactions and events will be recognized in the accounting records and presented in the financial statements. Governmental accounting transactions and events are recognized on either the accrual basis or the modified accrual basis.

1. **Accrual basis** of accounting records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.
2. **Modified accrual basis** of accounting recognizes revenues in the period in which they become available and measurable. Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current year liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

80.20.90.c

Under generally accepted accounting principles, the measurement focus and basis of accounting applied varies with fund type category.

1. **Governmental funds** focus primarily on the sources, uses and balance of current financial resources and often have a budgetary orientation. They employ the flow of current financial resources measurement focus and the modified accrual basis of accounting.
 - Revenues are recognized in the accounting period in which they become measurable and available.
 - Expenditures are recognized when incurred, if measurable, except for unmatured interest on general long-term obligations, which is recognized when due.
 - Prepayments and capital expenditures are not recorded as deferred costs to be allocated over future periods, but rather as current expenditures.
 - Assets and liabilities reported on the financial statements are limited to those representing current available resources or requiring expenditure of said resources.
2. **Proprietary funds** focus on the determination of net income, the changes in net assets (or cost recovery), financial position, and cash flows. They utilize the flow of economic resources measurement focus and the accrual basis of accounting.
 - Revenues are recognized in the period in which they are earned and become measurable.
 - Expenses are recognized in the period incurred.
 - This approach recognizes the deferral and capitalization of expenditures and the deferral of revenues.
 - Assets and liabilities reported represent all of the assets available and all of the liabilities outstanding.
3. **Fiduciary funds** focus on net assets and changes in net assets. Trust funds use the flow of economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans. Agency funds also use the accrual basis of accounting, but, since they are custodial in nature and do not involve the measurement of results of operations, they do not use a measurement focus.

80.20.100 **Accounting for capital assets and long-term obligations**

80.20.100.a **Capital assets** of the State are accounted for at cost or, if the cost is not practicably determinable, at estimated cost. The cost of a capital asset includes its purchase price or construction cost, as well as the ancillary charges necessary to place the asset in its intended location and condition for use. Donated capital assets are recorded at their estimated fair value at the time received. Refer to Chapter 30 for the State's policy for capitalizing assets and for estimating the useful lives of those assets.

Due to the distinctive nature of governmental activities and fund accounting requirements, some capital assets are accounted for in proprietary and fiduciary funds while others are accounted for in the General Capital Assets Subsidiary Account.

80.20.100.a.(1) Capital assets used in proprietary and fiduciary funds, where the flow of economic resources is measured, are accounted for in the appropriate fund. Depreciation of capital assets accounted for in a proprietary or fiduciary fund is recorded in the accounting records of that fund.

Proprietary funds report capital assets both in the government-wide and fund financial statements. Capital assets of fiduciary funds are reported only in the statement of fiduciary net assets.

80.20.100.a.(2) General capital assets are capital assets used in the operations of governmental funds where the primary accounting purpose is to reflect the sources and uses of current financial resources. Since general capital assets do not represent financial resources available for expenditure, they are not reported as assets in governmental funds. Rather, they are capitalized and depreciated in the General Capital Assets Subsidiary Account, and reported in the governmental activities column in the government-wide statement of net assets.

80.20.100.a.(3) Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach. Depreciation expense is reported in:

- the government-wide statement of activities,
- the proprietary fund statement of revenues, expenditures, and changes in fund net assets, and
- the statement of changes in fiduciary net assets.

80.20.100.b **Long-Term Obligations** - Due to the fund accounting requirements of a government's operations, some long-term obligations are accounted for in certain funds (fund long-term obligations) and others are accounted for in the General and Highway Bond Funds.

80.20.100.b.(1) Long-term obligations associated with and expected to be paid from proprietary and fiduciary funds are accounted for in the appropriate fund. These obligations may be secured by a specific fund asset or revenue or may be backed by the full faith and credit of the State.

Proprietary funds should report long-term obligations both in the government-wide and fund financial statements. Long-term obligations of fiduciary funds are reported only in the statement of fiduciary net assets.

80.20.100.b.(2) All long-term obligations that are not accounted for in a proprietary or fiduciary fund are considered general obligations of the State. Since general long-term obligations represent debt that will be met by expending resources other than those considered current and available as of current balance sheet year-end, they should not be reported in governmental funds. Rather, they are accounted for in the General and Highway Bond Funds, and reported in the governmental activities column in the government-wide statement of net assets.

80.20.110 **GAAP budgetary requirements**

Budgeting is recognized in GAAP as being a critical element of governmental planning, control and evaluation processes. GAAP budgetary requirements include:

- Budget(s) should be adopted by every government,
- The accounting system should provide the basis for appropriate budgetary control, and
- Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which budgets have been adopted. The budgetary comparison should present both the original and the final appropriated budgets for the period as well as actual inflows, outflows, and balances, stated on the State's budgetary basis.

Governmental funds of the State are budgeted primarily on a cash basis, with only a few exceptions for specific, legislatively-authorized, modified accrual, revenue adjustments. The required budgetary comparisons are presented as required supplementary information.

80.20.120**Management's Discussion and Analysis**

The State's financial statements are preceded by Management's Discussion and Analysis (MD&A). The MD&A, which is classified as required supplementary information, is a narrative introduction, overview, and analysis of the State's financial statements. It focuses on the primary government and is objective, easily readable, and based on currently known facts and conditions.

The MD&A introduces the basic financial statements describing the statements and their relationship to one another. With emphasis on the current year, it presents condensed comparative data and an analysis of the overall financial position of the State as well as an analysis of significant balances and operations of individual funds. The MD&A presents budget variances, significant capital asset (including infrastructure) and debt activity, and other potentially significant matters.

80.20.130**Government-wide financial statements**

The State presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide financial statements present information about the overall State. All governmental and business-type activities are included, but fiduciary activities are excluded. Nonfiduciary component units are included.

80.20.130.a

Statement of Net Assets – The purpose of the Statement of Net Assets is to display the financial position of the primary government and its component units. Governmental and business-type activities of the primary government are displayed in separate columns with a total column presenting a consolidated total (balances between governmental and business-type activities are eliminated).

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories: 1) invested in capital assets, net of related debt; 2) restricted net assets; and 3) unrestricted net assets. Net assets are reported as restricted when constraints are placed on asset use either externally, by creditors, grantors, contributors, or imposed by law through constitutional provision or enabling legislation.

- 80.20.130.b **Statement of Activities** - The purpose of a statewide Statement of Activities is to identify the extent to which each major State program is supported by general State revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business type activities, a major program is an identifiable activity.

80.20.140 Fund financial statements

- 80.20.140.a The fund financial statements focus on major individual funds of the State with non major funds aggregated into a single column regardless of fund type. In conjunction with the fund statements, the State presents a summary reconciliation between the fund financial statements and the government-wide financial statements.

At the fund statement level, governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are reported consistent with proprietary funds except for the recognition of certain liabilities of defined benefit pension plans.

80.20.140.b

The State's fund financial statements include:

Governmental funds

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balances

Proprietary funds

- Statement of Fund Net Assets
- Statement of Revenues, Expenses, and Changes in Fund Net Assets
- Statement of Cash Flows

Fiduciary funds

- Statement of Fiduciary Net Assets
- Statement of Changes in Fiduciary Net Assets

80.30

State Accounting and Reporting Policies

80.30.05

State accounting and reporting principles must conform with Generally Accepted Accounting Principles (GAAP)

The basic principles governing the accounting and reporting activities of the State are required by statute to be in conformance with generally accepted accounting principles (GAAP).

The significant accounting and reporting policies of the State of Maine are in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). For government-wide and proprietary fund reporting, the State also applies the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board (APB) Opinions.
3. Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

80.30.10

What is our fund/account structure?

In accordance with GAAP, the State defines a fund/account as a fiscal and accounting entity with a self-balancing set of accounts used by agencies to record transactions. Fund/account accounting is designed to demonstrate legal compliance and fiscal accountability by segregating transactions related to certain government functions or activities.

For reporting purposes, the State administratively combines accounts with activity and/or balances into roll-up funds. A roll-up fund is a reporting entity. It is comprised of the various accounts which generally fall within the generic activity/nature of the roll-up fund's title.

For reporting purposes, funds can be categorized into one of eleven “roll-up fund types.” These eleven fund types can be grouped into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

Five fund types are used to account for the “governmental type” activities of the State and these are categorized as governmental funds. Two fund types are used to account for the State’s “business type” activities and these are categorized as proprietary funds. The remaining category is for the State’s fiduciary funds which are used to account for resources that are held by the State as a trustee or agent for individuals/organizations outside the State and cannot be used to support the State’s own programs.

80.30.15 What are subsidiary accounts?

The State uses subsidiary accounts for tracking general capital assets and the invested portion of the Treasurer’s Cash Pool. Subsidiary accounts are record keeping mechanisms that provide a basis for accountability and tracking the State’s general capital assets and invested portion of the Treasurer’s Cash Pool.

80.30.20 What is our measurement focus and basis of accounting?

80.30.20.a The accounting and financial reporting treatment applied to an account is determined by its measurement focus. All governmental fund type accounts are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Governmental Funds balance sheet. Operating statements for these accounts present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

All proprietary and trust fund type accounts are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these accounts are included on their respective statements of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Net assets in proprietary fund type accounts are segregated into three components: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets for trust fund type accounts are held in trust for external individuals and organizations.

The modified accrual basis of accounting is used by all governmental fund type accounts. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction is reasonably estimable. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; charges for services; and, other reimbursements for use of materials and services.

The State generally considers revenues as available if they are collectible within 60 days of the end of the fiscal year. Individual income, corporate income, and sales and use taxes are considered available if collectible within 12 months of the end of the fiscal year. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Property taxes are recognized as revenue in the year for which they are levied, provided the “available” criterion is met.

Under modified accrual accounting, expenditures are recognized when the related liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

All proprietary and trust fund type accounts are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

The State defers recognition of revenue under certain conditions. Deferred revenues arise when a potential revenue does not meet both the “measurable” and the “available” criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the State before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

80.30.20.b For government-wide reporting purposes, the State uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

80.30.25 General budgetary policies

Governmental fund type accounts are budgeted primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year. Certain governmental activities are excluded from budgetary reporting because they are not appropriated. These activities include: Tax Increment Financing; Circuit-Breaker Program; federal surplus food commodities; and, food stamp benefits.

80.30.27 General reporting policies

80.30.27.a In accordance with GAAP, the State annually prepares and publishes a Comprehensive Annual Financial Report (CAFR), which presents the primary government and its component units, entities for which the State is considered to be financially accountable.

80.30.27.b A State agency or component unit may prepare and publish separate, stand-alone financial reports as deemed necessary. When these reports are prepared in accordance with GAAP, the relationship between the agency or component and the State should be disclosed on the cover of the report as well as in the notes to the financial statements. Refer also to Subsection 90.10.60.

80.30.28 What is the State of Maine reporting entity?

In defining the State of Maine for financial reporting purposes, management considers: all organizations, institutions, agencies, departments, and offices that are legally part of the State (the primary government); organizations for which the State is financially accountable; and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be incomplete.

The primary government of the State includes its agencies, and blended component units. Blended component units, although separate entities, are part of the State's operations in substance. Accordingly, they are reported as part of the State and blended into the appropriate funds.

The State reports discretely presented component units in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the State and primarily serve or benefit those outside of the State. They are financially accountable to the State, or have relationships with the State such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

80.30.30**Pooled cash and investment policies**

Investments of surplus or pooled cash balances are reported by the State as "Equity in Treasurer's Cash Pool." The Office of the State Treasurer invests State treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty.

The policy for valuing investments varies depending upon the nature of the investment. Short-term money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less are reported at amortized cost. Participating contracts are investments whose value is affected by market (interest rate) changes. If these contracts are negotiable or transferable, or their redemption value considers market rates, they should be considered participating. Nonparticipating contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are reported using a cost-based measure. Investments in open-end mutual funds are reported at fair value, which is determined by the fund's current share price. All other investments are reported at fair value. Fair value is determined using quoted market prices for marketable securities and other reasonable methods for investments where market values are not readily available.

80.30.35 Receivables policy

Receivables in the State's governmental fund type accounts consist primarily of tax and federal revenues. Receivables in all other accounts arise in the ordinary course of business. When either the asset or revenue recognition criteria has been met, the receivables are recorded.

For government-wide reporting purposes, amounts reported in the funds as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual balances due between the governmental and business-type activities, which are presented as internal balances. Amounts reported in the funds as due to or from fiduciary funds are reported in the Statement of Net Activities as other receivables and accounts payable.

80.30.40 Inventories policy

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes if the fiscal year-end balance on hand is considered significant. The costs of materials and supplies of the governmental funds are reported as expenditures when purchased. Consumable inventories are generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value. Unexpended balances of food stamps, and undistributed vaccines and food commodities are reported at face value.

80.30.45 Capital assets policy

Capitalization - Except as noted below, it is the State's policy to capitalize:

- All land;
- The State highway system operated by the Department of Transportation;
- Infrastructure, other than the State highway system, with a cost of \$3,000 or more; and
- All other capital assets with a unit cost of \$3,000 or more.

Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of \$100,000 or more are also capitalized.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the State's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

Art collections, library reserve collections, and museum and historical collections that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the State if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In proprietary and trust fund type accounts, net interest costs (if material) incurred during the period of construction are capitalized.

The OSC reserves the right to establish different capitalization thresholds for financial reporting purposes than those used to account for capital assets within the fixed assets subsystem.

Depreciation - With the exception of the State highway system, land, inexhaustible collections, and construction in progress, depreciation is calculated on general capital assets. However, depreciation expense of general capital assets is not recorded in governmental fund type accounts. Depreciation is recorded in the General Capital Assets Subsidiary Account for reporting on the government-wide financial statements.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	30 - 50 years
Furnishings, machinery & equipment	2 – 7 years
Improvements to land and buildings	10 – 15 years

Modified Approach to Depreciation - The State capitalizes the State highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the State. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets;
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale; and,
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All State highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvement that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the Modified Approach.

Reporting - For government-wide financial reporting purposes, capital assets of the State are reported as assets in the applicable governmental or business type activities column on the Statement of Net Assets. Depreciation expense related to capital assets is also reported in the statement of activities. Capital assets and the related depreciation expense are also reported in the proprietary fund type financial statements.

In governmental fund type accounts, capital assets are not capitalized in the accounts that acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in the year acquired and recorded in the General Capital Assets Subsidiary Account. The General Capital Assets Subsidiary Account is a record keeping mechanism that provides a basis for accountability and control over the State's capital assets other than those accounted for in proprietary or fiduciary funds.

80.30.50**Short-term liabilities policy**

Short-term liabilities are legal obligations of the State that arise upon the receipt of goods or services. In governmental fund type accounts, they are payable from current financial resources. In proprietary and fiduciary fund type accounts, they represent items payable within one year.

In proprietary and fiduciary fund types, as well as the General and Highway Bond Funds, short-term liabilities also include the short-term portion of long-term obligations. The short-term portion of long-term obligations is the amount due within one year.

80.30.55**Compensated absences policy**

- **Vacation, Compensatory and Personal Leave** - State employees earn vacation, compensatory and personal leave that, if not used for paid time off, results in full compensation at termination or retirement. It is generally the State's policy to liquidate unpaid vacation, compensatory and personal leave with future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts recognize vacation, compensatory and personal leave when it is paid. A liability for accumulated vacation, compensatory and personal leave, including related payroll benefits and taxes, is recorded for governmental fund type accounts on the Government-wide financial statements only. Proprietary and trust fund type accounts recognize the expense and record a liability for vacation, compensatory and personal leave, including related payroll taxes and benefits, as it is earned.
- **Sick Leave** - The State's policy with respect to sick leave is that if it is not used for paid time off, up to 90 days of unused sick leave may be credited towards State service for retirement purposes. The State is not liable to compensate employees through cash payments for unused, accumulated sick leave when they retire or die. For financial reporting purposes, the State has no liability for unused sick leave at June 30. Accordingly, the State recognize sick leave when it is paid.

80.30.60**Long-term obligations policy**

Long-term obligations expected to be financed from proprietary and fiduciary fund type accounts are accounted for in those accounts. Long-term obligations expected to be financed from resources received in the future by governmental fund type accounts are accounted for in the General and Highway Bond Funds.

The General and Highway Bond Funds are a record-keeping mechanism that provides a basis for accountability and control over the State's long-term obligations other than those accounted for in proprietary and fiduciary funds.

For governmental fund type financial reporting, the face (par) amount of the debt issued is reported as other financing sources. Original issuance premiums and discounts on debt issuance are also reported as other financing sources and uses respectively. Issue costs are reported as debt service expenditures.

For government-wide financial and proprietary fund reporting purposes, long-term obligations of the State are reported as liabilities in the applicable governmental or business type activities column on the Statement of Net Assets. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

80.30.65**Fund equity policy**

Fund equity represents the difference between assets and liabilities. In governmental fund type accounts, fund equity is called "fund balance." Reserved fund balance represents the portion of fund balance that is: (1) not available for appropriation or expenditure, and/or (2) that is legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

In proprietary fund type accounts, fund equity is called net assets. Net assets is comprised of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

80.30.67**Revenues and expenses policy****80.30.67.a****Revenues**

For the government-wide Statement of Activities, revenues are classified as either “program” revenues or “general” revenues.

- **Program revenues**

Program revenues offset the expenses of major programs. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a State citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific program. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

- **General revenues**

Revenues not included in program revenues are considered general revenues. They are not matched to specific program expenses. These revenues are from State taxpayers and from State-generated activities.

General revenues include the following:

- Taxes, even those levied for a specific purpose;
- Interest earnings not specifically restricted to a specific program; and,
- Grants and contributions not specifically restricted to a program.

- **Other**

Contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers are reported separately from, but in a manner consistent with, general revenues.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first and then use unrestricted resources as they are needed.

80.30.67.b

Expenses

For government-wide reporting purposes, amounts reported as activity expenses include those expenses directly related to a major program. Depreciation on capital assets specifically identified with a given program is considered a direct expense. All other depreciation is reported as part of the “general government” program. Interest expense is not considered a direct expense except in those cases where its exclusion as a direct cost of a program would be misleading. In order to avoid “doubling up” of expenses, internal service fund activity is generally eliminated.

80.30.67.c

Operating/Nonoperating

The State’s proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the State’s workers’ compensation and health insurance funds consist of premiums collected and investment earnings. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

80.30.70

Insurance activities policy

In instances where the State has retained the risk of loss related to insurance type activities, claims and judgment liabilities are reported when it becomes probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrine, claims adjudication, and judgments, the process used in estimating claims liabilities does not necessarily result in an exact calculation. Claims liabilities are re-evaluated periodically to take into consideration recent settlements, claim frequency, and other economic, legal or social factors. Adjustments to claims liabilities are charged or credited to an expense in the period in which the adjustment is made.

80.30.75 Interfund activities policy

The State engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal.

Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

As a general rule, the effect of interfund/interagency activities is eliminated for government-wide financial statement reporting purposes. Exceptions to this rule are charges between the State's employee health insurance and workers' compensation insurance programs and various other functions of the State. Elimination of these charges would distort the direct costs and program revenues reported for the various activities concerned.

80.30.80 How to establish accounts

Accounts required by law to be maintained within the State's accounting system are established by legislative action. These accounts are subject to appropriation unless specifically exempted. All receipts shall be deposited into the accounts. Monies in the accounts may be spent only after appropriation.

Accounts that are not subject to appropriation are generally authorized in statute and created by the OSC.

80.30.82 The State has adopted a Uniform Chart of Accounts

OSC has adopted a standard system of classifying agency financial information to fulfill the need for uniform, consistent terminology and classifications to be used for budgeting, accounting and reporting the financial activities of the State. Financial transactions are described by means of alphanumeric indicators which are assigned to descriptive titles. Chapter 75 of this manual presents the State's uniform chart of accounts.

For management purposes, agencies may maintain a more detailed level of accounting data. Optional agency designated codes include reporting organizations, sub-object codes, and report categories, among others. Refer to Section 75.10.

Account Type – The two digit numeric code assigned by MFASIS to identify the type of account, within the general ledger, affected by the transaction being processed.

Fund Code - The four character numeric code [we currently use only three characters] assigned by OSC to identify each specific accounting entity against which transactions are recorded.

Agency Code - The three character alphanumeric code assigned to designate distinct operational units of State government.

General Ledger/Balance Sheet Account Code - The four character numeric code assigned by OSC to identify the titles which classify, in summary form, all financial transactions of the State.

Reporting Organization - The four character alphanumeric code assigned to identify each major activity or function within a single fund. Organization codes beginning with zero [Appropriation Organizations] are established by the legislature and represent the levels at which appropriations are controlled. All other organization codes [Reporting Organizations] are established by OSC, at the request of user agencies, to facilitate reporting and analysis.

Appropriation Unit - The three character numeric code used to identify the distinct legislative or executive appropriation given to a specific program and its line category.

Revenue Source Code - The four character numeric code assigned by OSC to identify the origin, or originating categories, from which revenues/receipts are derived.

Object Code - The four character numeric code assigned by OSC to identify expenditures/expenses according to the character of the goods or services purchased.

The following diagrams illustrate the uniform statewide account code structure format for general ledger, revenue and expenditure/expense accounting:

GENERAL LEDGER/BALANCE SHEET ACCOUNTS

ACCOUNT TYPE	FUND	AGENCY	GL/BS ACCOUNT	DESCRIPTION
<u>01</u>	<u>010</u>	<u>08C</u>	<u>0025</u>	Asset
				General Fund
				OSC
				Accounts Receivable

REVENUE ACCOUNTS

ACCOUNT TYPE	FUND	AGENCY	ORG	APPROP UNIT	REVENUE SOURCE	DESCRIPTION
<u>31</u>	<u>014</u>	<u>09A</u>	<u>0531</u>	<u>02</u>	<u>1733</u>	Revenue
						Special Revenue Fund
						IF&W
						Licensing Services
						Lifetime License Fund
						Lifetime Hunting License

EXPENDITURE/EXPENSE ACCOUNTS

ACCOUNT TYPE	FUND	AGENCY	ORG	APPROP UNIT	OBJECT CODE	DESCRIPTION
<u>22</u>	<u>013</u>	<u>05A</u>	<u>0364</u>	<u>382</u>	<u>6306</u>	Expenditure
						Federal Expenditures Fund
						Department of Education
						Adult Education
						Adult English Literacy
						Grants for Education

80.30.84 Required accounting steps

- 80.30.84.a The initial step in processing accounting information consists of receiving a source document in electronic or paper form, analyzing the transaction to determine its nature and then assigning the appropriate coding. Documents initiating accounting transactions include cash receipts, invoices, purchase orders, and journal vouchers.
- 80.30.84.b Properly coded and approved source documents are segregated into similar transaction type groupings and posted sequentially in the MFASIS accounting system.
- 80.30.84.c Periodic financial reports are generated to support administrative and budgetary control. Examples of these reports include budget status report, accounts receivable aging report, and general ledger trial balance.
- 80.30.84.d Annually, statewide financial statements are prepared. Chapter 90 of this manual provides specific requirements and procedures for the production of the State's Comprehensive Annual Financial Report (CAFR).

Additionally, agencies may produce agency financial statements or reports. In doing so, they must use the information submitted to the MFASIS accounting system. Any variance between MFASIS data and agency issued financial statements is to be reconciled and disclosed in the notes to the agency's financial statements. However, if the separately issued statements use different reporting standards, the agency is to clearly indicate in the notes to the agency financial statements which standards were used and how they differ from those used in the State's CAFR.

80.30.86 Using standard or other accounting forms

Standard forms have been developed and are prescribed for use by State agencies to support the accounting, budgeting and administrative functions.

Any revision by an agency to a standard form or the origination of a new form by an agency that is to be used as an accounting source document to support disbursements or collections of State funds must be approved in writing by the OSC prior to adoption. Overprinting, such as agency name and address, is not considered a revision and therefore is not subject to approval.

80.30.88 Requirements for agencies implementing, maintaining or modifying accounting or reporting systems

80.30.88.a Any agency proposing to invest in agency financial or administrative systems must comply with the provisions of this manual and the rules prescribed by the OSC, the Office of the Chief Information Officer (OCIO) and the Bureau of Information Services (BIS). Financial data generated by agency systems must be compatible with the requirements of the centralized statewide systems operated by OSC.

80.30.88.b Enterprise-wide or multiple agency systems are the solutions of choice to meet the financial/administrative needs of State agencies. Any material changes to existing and all new agency unique financial/administrative systems should be discussed with OSC **prior to** beginning any significant investments in system development, enhancement, or acquisition, regardless of funding source.

80.30.88.c Agencies should develop an enterprise-wide opportunity assessment and business justification to include an evaluation of each of these alternatives:

1. Does a cost-effective, central-system solution exist?
2. Can the agency be more flexible in how its needs are met; or can a central system be modified in a cost-effective, timely way to meet the needs?
3. Can the needs be met by creating an agency-unique extension to a central system or central database rather than a completely new system?
4. Does a partnership opportunity exist where one or more other agencies can join together to share in the creation of a new, shared system solution?

80.30.88.d Compliance with this Section facilitates the development of acceptable interface systems and minimizes the risk of developing incompatible systems that cannot be approved or implemented.

80.30.90 Budgetary data must be maintained

Budgetary data is integrated in the uniform account code structure and is required to be maintained by each agency. The budgetary data is used to reflect budget operations such as estimated revenues, appropriations, allotments, and encumbrances.

80.30.92 Agency fiscal activities must be organized to provide effective internal control

Agency fiscal activities are to be organized in such a manner as to provide the maximum degree of internal control in the most efficient and effective manner. Specific organization arrangements are left to the discretion of the agency; due to the diverse nature of State agency operations, examples will not be illustrated in this manual. Agencies are responsible for establishing and maintaining effective internal control over financial reporting. An agency's system of internal controls must comply with the internal control requirements prescribed in Chapter 20 of this manual.